ANNUAL REPORT

TUSK RESOURCES INC.

FOR THE PERIOD ENDED DECEMBER 31, 1994

CORPORATE PROFILE

TUSK Resources Inc. is a public company engaged in the exploration for, development of and production of oil and gas in Western Canada. The common shares of the Company trade on The Alberta Stock Exchange (Symbol: TUS). TUSK is a reporting issuer in the provinces of Ontario, Alberta and British Columbia.

The major assets of the Company are light oil production at various Alberta locations (Meekwap, Progress, Leduc, Willesden Green, Utikuma Lake, Rainbow), gas/condensate production at Gilby, Alberta and oil production at Hazlet, Saskatchewan. The exploration programs of the Company concentrate on light oil and/or natural gas prospects. The Company is focused on operating as many of its investments as possible. TUSK is currently operating approximately 25% of its production and expects to increase this to a 50% level prior to the end of the 1995 fiscal year. TUSK operates exploration prospects in the Nipisi, Virginia Hills and Carrot Creek areas of Alberta.

CONTENTS

Highlights....................1
President's Report to Shareholders....................2
Exploration & Operations Review....................5
Financial Review....................7
Management's Report....................8
Auditor's Report....................9
Financial Statements....................10
Corporate Information....................Inside back cover

Abbreviation Table

bo	barrels of oil
bopd	barrels of oil per day
bpd	barrels per day
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
Mbbls	thousands of barrels
Mcf	thousand cubic feet
MMcf	million cubic feet
BPO	before payout
APO	after payout

1 barrel of oil = 0.15891 cubic metres
1 Mcf gas = 28.17399 cubic metres
1 barrel of oil equivalent = 10 Mcf gas

STOCKHOLDER INFORMATION

The common shares of TUSK Resources Inc. are listed for trading on The Alberta Stock Exchange (symbol: TUS). As of December 31, 1994 the number of common shares outstanding was 38,626,607. The Annual Meeting of TUSK Resources Inc. will be held at 9:00 a.m. Calgary time on Wednesday, June 7, 1995 at The 400 Club, 710 -4th Avenue S.W., Calgary, Alberta.

HIGHLIGHTS

		Period Ended December 31 1994	Year Ended March 31 1993
FINANCIAL			
Revenue (net of royalties)	$	**791,630**	684,483
Cash flow			
from operations	$	**92,871**	205,918
per share	$	**0.003**	0.018
Shareholders Equity	$	**8,542,585**	7,849,182
Shares Outstanding		**38,826,607**	31,126,607
OPERATING			
Production			
Average production			
Oil (bopd)		**153**	146
Gas (Mcfd)		**–**	–
Exit Rate			
Oil (bopd)		**260**	340
Gas (Mcfd)		**387**	–
Reserves (proven and probable)			
Oil (bbls)		**558,000**	832,500
Gas (MMcf)		**1,138**	1,029
Wells Drilled			
Oil		**4**	3
Gas		**–**	–
Dry		**4**	–
Total		**8**	3
Average working interest		**19%**	20%
Land Holdings			
gross acres		**19,360**	7,397
net acres		**3,225**	2,132

Note: Values for cash flow and cash flow per share are impacted by the timing of the sale of the Cecil assets and the acquisition of the new assets. Cecil assets were sold with effective date of October 31, 1994. The new assets were acquired such that the net revenue for the period June 1, 1994 to December 31, 1994 was paid to TUSK as an adjustment at closing. Consequently, the production and revenue for this period has not been booked by TUSK for accounting purposes. TUSK estimates annualized exit rate cash flow per share as of December 31, 1994 at approximately $0.03.

PRESIDENT'S REPORT TO SHAREHOLDERS

TUSK's year end has been changed from March 31 to December 31. This report is for the nine month period ended December 31, 1994.

The period ended December 31, 1994 has been a time of some disappointment for investors in the public securities of most oil and gas companies. A dramatic erosion of gas prices in the latter part of the year, coupled with a marked decrease in capital available for investment in the public share market, negatively impacted trading values and limited the sources of new capital available.

While TUSK had little gas production in 1994, it was affected by the general market malaise that decreased the trading values of oil and gas securities in the public market. The situation was exacerbated by the poor performance of our major oil producing property which was purchased prior to the start of the fiscal period.

Disappointing production levels and only moderate success with our exploration program at Utikuma led directors and management to decide, in September, 1994, that some changes were necessary. With the sale of the Cecil property, the acquisition of 8 new producing properties, the re-focusing of our exploration efforts and an emphasis on operating key assets, your Company is now a much stronger junior oil company with potential for on-going stability and future growth.

Significant Events During The Period

During the period (beginning April 1, 1994 and ending December 31, 1994) the Company:

- closed a flow-through financing for proceeds of $1.54 million (August);
- sold its oil producing property at Cecil, Alberta for net proceeds of $3.3 million (December);
- purchased interests in 8 producing properties for net $2.9 million (December); and
- drilled 4 successful oil wells on its Utikuma exploration project (June-December).

Significant Events Since End Of Period

As of the date of this report we are already well into the 1995 fiscal year and TUSK has:

- become the operator of a producing oil property at Hazlet, Saskatchewan from which approximately 25% of current net production is derived;
- started a program at Hazlet to decrease operating costs and improve operating efficiencies;
- participated in the drilling of a successful wildcat well at Rainbow, Alberta;
- increased our interest in the Carrot Creek Cardium light oil prospect to 100%; and
- commenced negotiations to acquire additional interests on two key producing properties where management believes there is potential for increased levels of production.

Production

With the purchase of a new producing base, production levels at the end of the fiscal period have recovered to approximately the levels of one year prior. The purchase of producing properties in December, provides TUSK with a more diversified asset base, better quality of reserves and more reliable cash flow. As operator of over 25% of our production, the Company is able to actively pursue a program to increase netbacks through improved operating efficiencies and has a greater level of control over events which may affect us.

TUSK has emphasized investment in light oil production with approximately 50% of our year-end production of 300 boepd being light oil.

Exploration

During the fiscal period the Company was involved in 4 successful oil wells at Utikuma. However, with 5 dry holes on the same project the overall results did not live up to our

expectations. The low production levels from our Cecil property led to minimal cash flow for re-investment with the consequence that TUSK was unable to pursue an aggressive exploration program and become involved in more exploration opportunities.

The re-structuring of our producing property portfolio has freed up cash flow for investment. Coupled with a more hands-on approach by senior management in the exploration process, our exploration efforts have been re-energized allowing the Company to embark upon a much more active program in fiscal 1995.

Strategy for Growth

- pursue an exploration program focusing on light oil and/or natural gas prospects;
- evaluate and, if appropriate, purchase oil and gas assets with upside potential;
- initiate discussions with other oil and gas companies and, if appropriate, arrange a corporate combination where there is incremental value provided to the shareholders; and
- operate our investments wherever possible.

Management

We are pleased to advise that John D. Morgan, an investment dealer from Montreal has agreed to stand for election to our board of directors. His business acumen and many contacts in the investment community will benefit TUSK in the future. Mr. Morgan is a Vice President of Midland Walwyn Capital Inc. Richard Grayston, a director of TUSK since inception, is retiring from the board. The directors and management of TUSK wish to thank Dick for his efforts on behalf of the Company.

Outlook

Key objectives of establishing a producing base and an inventory of exploration prospects were achieved by the start of the last fiscal year. However the poor performance of the Cecil property and financial constraints imposed by those circumstances precluded any significant growth during the fiscal period.

The newly acquired producing base, available borrowing capacity and cash flow for investment, operatorship of key assets and a focused team of experienced individuals who work together effectively, provide stability, diversity, financial flexibility and commitment, allowing TUSK to pursue its strategy for growth in 1995.

At the annual and special general meeting of shareholders to be held June 7, 1995, shareholders will be asked to approve a special resolution with regard to the restating of the share capital account of the Company. The restatement was made necessary by the performance of our Cecil property discussed earlier.

With over 38 million common shares outstanding a number of major shareholders have indicated a preference for consolidation. The management and directors of TUSK support this view. At the annual and special general meeting, shareholders will be asked to approve a special resolution to consolidate the common shares of the Company.

We would like to thank all those who have supported and continue to support our efforts. While the past year has been a little rocky at times we proceed into fiscal 1995 much improved. We are confident that shareholders who have stood by us will be rewarded for their patience as TUSK grows in the future.

NWHolton

Norman W. Holton, P. Geol.
President and Chief Executive Officer

April 28, 1995


RAINBOW, ALBERTA
TUSK Lands
Muskeg oil wells
Key River oil well
UTIKUMA, ALBERTA
OIL TRANSMISSION LINE
TUSK Lands
Option Lands
Oil Battery
Rainbow
ALBERTA
Progress
Utikuma
Nipisi
Meekwap
Virginia Hills
SASKATCHEWAN
EDMONTON
Carrot Creek
Leduc
Willesden Green
Gilby
Producing Areas
Exploration Areas
CALGARY
Hilda
Hazlet
REGINA
Benson
HALFWAY SAND TREND
TUSK Lands
WILLESDEN GREEN, ALBERTA
CARDIUM OIL POOL
TUSK Lands
PROGRESS, ALBERTA

EXPLORATION & OPERATIONS REVIEW

Highlights

- sold oil property at Cecil, Alberta;
- purchased new producing properties;

Since end of fiscal period:

- drilled Keg River light oil well at Rainbow;
- appointed operator of Hazlet Unit;
- acquired additional interests on Carrot Creek prospect;
- moved ahead with plans for drilling at Meekwap;
- initiated negotiations to acquire additional interests in certain properties where management believes there is additional upside; and
- commenced upgrade of water handling facilities at Hazlet Unit.

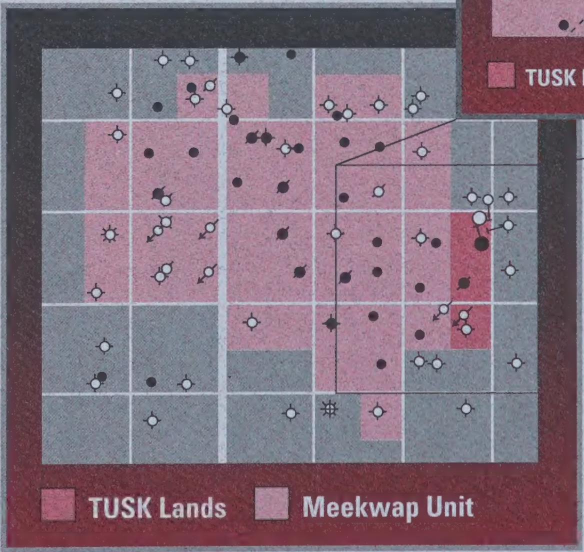
With a continuing focus on light oil areas for its exploration programs, TUSK places its emphasis on the creation of secure additional cash flow. TUSK's producing base consists of only a minimal amount of gas (380 mcfd net) which is liquids rich. As a consequence the recent downturn in gas prices has only a minor effect on the Company. Management is of the opinion that the long term prospects for gas remain very favourable and over the coming year the Company will endeavor to increase its exposure to gas prospects and production.

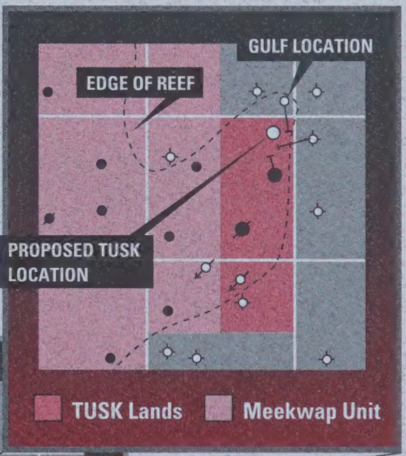
Meekwap, Alberta

TUSK owns a 20% working interest in a production pooling involving one producing oil well (170 bopd/300 mcfd gross) (34 bopd/60 mcfd net) with high water cut, one suspended oil well and one well which re-injects produced water into the producing zone (Nisku Formation).

The producing well has already produced over 1.7 million barrels of oil and at one time had producing rates in excess of 2000 bopd. Current production remains at over 2000 bpd of total fluid. TUSK believes that there is potential for significant recoverable reserves of oil in the Nisku Formation in the area to the north of and updip from the producing well.

The Meekwap area was the site of substantial horizontal drilling activity during calendar 1994. Most of these wells were drilled in a part of the Meekwap reef complex where the reservoir rock is limestone. Production rates of up to 2000 bopd have been obtained. Given the exceptional production characteristics of our existing producer, which produces from a dolomitized portion of the reef complex, substantial fluid volumes may be expected from this reservoir without the need for a horizontal well. TUSK is moving ahead with plans for the drilling of a new well at Meekwap. As of the date hereof no final decision has been made on whether or not to drill the new well as a horizontal or vertical well.

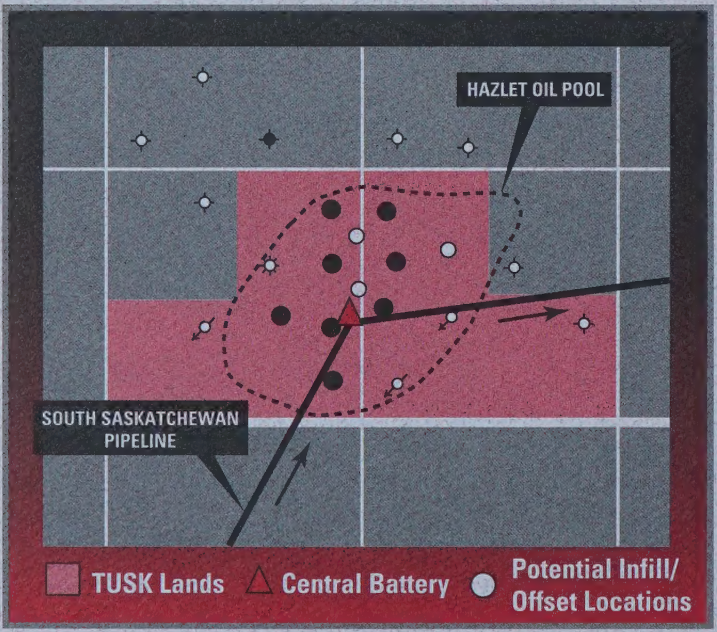




MEEKWAP, ALBERTA

HAZLET, SASKATCHEWAN

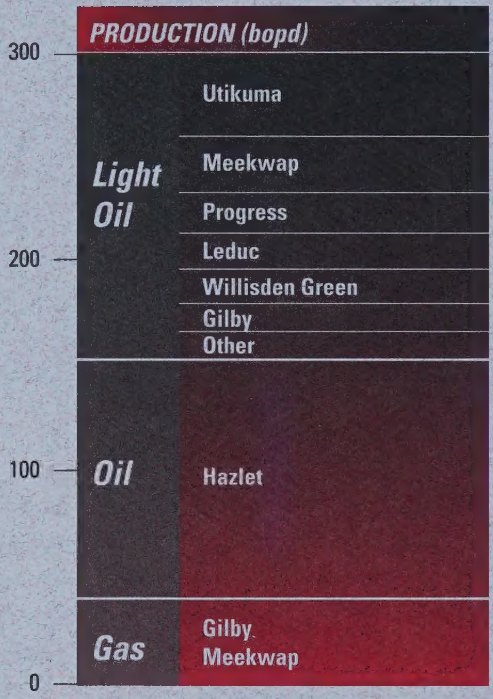
TUSK acquired a 28.65% working interest in the Hazlet Unit in southwestern Saskatchewan in late December, 1994 and was named operator effective February 1, 1995. The Unit consists of 8 producing oil wells and 3 injection wells which re-inject water produced along with oil from the Roseray Sand. Current Unit production is approximately 360 bopd at a 96% water cut. With large volumes of produced water being injected back into the producing zone, the property is sensitive to operating costs. In an effort to minimize those costs, TUSK and its partners have undertaken a modernization of the water injection facility which will lead to significant savings in power costs and which will increase the injection capacity of the Unit. This will allow for increased levels of production from existing wells and the possible addition of new wells.



HAZLET, SASKATCHEWAN

OTHER AREAS

TUSK's production at December 31, 1994 of 300 boepd comes from nine separate producing areas. The table below summarizes this production.



Since the end of the fiscal period TUSK has participated in the drilling of a new pool light oil discovery in the Rainbow area of northwestern Alberta (10% BPO, 6% APO). As of the date of this report extended production testing has indicated production rates in excess of 300 bopd. The producing zone is the Keg River Formation.

MANAGEMENT'S FINANCIAL ANALYSIS AND DISCUSSION

SALES

TUSK's oil revenues for the period ended December 31, 1994 were derived from Cecil production for the period April 1, 1994 to September 30, 1994, the effective date of the property's sale, and from production at Utikuma beginning in August, 1994. Oil and gas revenues from the properties purchased at the end of the fiscal period from the effective date of June 1, 1994 to the date of closing, were treated as a purchase price adjustment.

OPERATING

TUSK's crude oil lifting cost for the period ended December 31, 1994 averaged $5.17 per barrel compared to $5.19 for the year ended March 31, 1994. Operating costs for the central battery facility at Cecil for the period ended December 31, 1994 of $91,077 were offset by battery revenue of $72,971.

DEPLETION, DEPRECIATION, FUTURE SITE RESTORATIONS AND PROPERTY IMPAIRMENT

Non-cash expenses totalled $514,500 for the period ended December 31, 1994, compared to $1,893,082 for the year ended March 31, 1994. Depletion expense on the Cecil property for the period April 1 to September 30, 1994 was $400,000.

INTEREST EXPENSE

Interest expense in the period ended December 31, 1994 was $152,710 compared to $22,740 for the year ended March 31, 1994. Long term debt drawn down to purchase the second phase of the Cecil acquisition January 10, 1994 was repaid when the sale of the property closed in December, 1994. A line of credit was arranged when new assets were acquired, in late December, 1994.

INCOME TAXES

The liability for payment of current income taxes is dependent on the levels of the Company's taxable income, its related tax pools and available losses carry forward. At December 31, 1994, the Company has accumulated resource and other tax pools of approximately $7,700,000. On the basis of the available tax pools and anticipated rates of capital investment, income tax liabilities are not expected to be incurred for more than two years.

EQUITY

Shareholders' equity increased from $7,849,182 to $8,542,585 during the period. The increase resulted from shares being issued under a flow-through share agreement of 7,700,000 flow through common shares at $0.20 per share net of tax benefits of $683,000 renounced to shareholders and share issue expenses of $163,597.

CAPITAL EXPENDITURES

During the period ended December 31, 1994, the Company incurred total capital expenditures of $3,429,000. TUSK closed it's purchase of eight oil and gas properties from a private oil and gas company December 29, 1994 for $2,691,000, which sum is net of net revenue and interest adjustment of $518,000 from the June 1, 1994 effective date to the closing date. Exploration and development of oil and gas properties in Canada, principally at Utikuma, Alberta accounted for the balance of the additions. Capital expenditures are expressed net of the tax effect of the expenditures flowed through to shareholders of $683,000.

The Company sold it's interest in the Cecil property effective October 1, 1994, for net proceeds of $3,300,000 resulting in a loss on disposal of $3,590,000.

Liquidity

TUSK had a working capital deficiency of $167,553 at December 31, 1994, mainly due to the drilling activity in the last quarter of the fiscal period. Subsequent to the end of the fiscal period the Company sold its' interest in one of it's producing wells at Utikuma for $400,000. The proceeds of the sale were applied to reduce accounts payable resulting in a significant improvement in the Company's working capital position.

Coincident with the closing of the sale of the Cecil property, the Company repaid the long- term debt. The Company then arranged new bank financing to complete the oil and gas property acquisition. The new banking arrangements are a line of credit facility to a maximum of $2,300,000 of which $1,600,000 was outstanding at December 31, 1994. The available line of credit will be reduced by $57,500 per month, beginning February 1, 1995.

Asset Value Per Common Share Before Tax as of December 31, 1994

Assets	
Working Capital	$(167,553)
Proved and probable reserve value (1)	5,379,000
Proved reserve value (2)	140,000
Other probable reserves (3)	800,000
Estimated cash value of tax pools (4)	770,000
	6,921,447
Liabilities	
Long-term Debt	(1,600,000)
Future Site Restoration Provision	(5,000)
Net Asset Value	$ 5,316,447
Common Shares Outstanding December 31, 1994	38,826,607
Net Asset Value per Common Share	$ 0.14

The Company's net asset value per Common Share before tax at December 31, 1994 is based on the 15% discounted cash flow present worth, using escalated prices and cost assumptions for proved and probable reserves risked at 50% as determined by Sproule Associates Limited, independent petroleum engineers, at January 1, 1995 (1) and at June 1, 1994 (2) for two minor properties. Other probable reserves (3) are management estimates risked at 50%. Estimated cash value of tax pools (4) is calculated as $0.10 per dollar of tax pools.

MANAGEMENT REPORT

The financial statements are the responsibility of the management of TUSK Resources Inc. They have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board is assisted in exercising its responsibilities through the audit committee of the board, which includes two non-management directors. The audit committee meets periodically with management and the auditors to satisfy approval of the financial statements to the board.

KPMG Peat Marwick Thorne, the independent auditors appointed by the shareholders, have audited the Company's financial statements in accordance with generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the audit committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

N W Holton

Norman W. Holton
President and
Chief Executive Officer

Gordon K. Case

Gordon K. Case
Vice President and
Chief Financial Officer

April 28, 1995

AUDITOR'S REPORT

To the Shareholders of TUSK Resources Inc.

We have audited the consolidated balance sheets of TUSK Resources Inc. as at December 31, 1994 and March 31, 1994 and the consolidated statements of operations and deficit and changes in financial position for the nine months ended December 31, 1994 and the year ended March 31, 1994. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1994 and March 31, 1994 and the results of its operations and the changes in its financial position for the nine months ended December 31, 1994 and the year ended March 31, 1994 in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants
Calgary, Canada
March 22, 1995

CONSOLIDATED BALANCE SHEETS

	December 31 1994	March 31 1994
	($)	($)
ASSETS		
Current Assets		
Cash	**2,780**	88,082
Short Term Investments	**3,750**	5,000
Accounts Receivable (Note 8)	**454,511**	203,244
Cash Calls Receivable	**69,374**	23,418
Prepaid Expenses	**3,717**	11,717
Total Current Assets	**534,132**	331,461
Capital Assets (Note 2)	**3,848,830**	7,798,110
	4,382,962	8,129,571
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable (Note 8)	**671,685**	831,667
Note Payable to Related Party (Note 4)	**30,000**	30,000
Current Portion of Long-Term Debt	**–**	1,205,000
Total Current Liabilities	**701,685**	2,066,667
Long-Term Debt (Note 5)	**1,600,000**	660,000
Future Site Restoration	**5,000**	8,000
Shareholders' Equity		
Capital Stock (Note 6)	**8,542,585**	7,849,182
Deficit	**(6,466,308)**	(2,454,278)
	2,076,277	5,394,904
Commitments (Note 9)	**4,382,962**	8,129,571

See Accompanying Notes

Approved on Behalf of the Board:

NWHolton James Lawson

Norman W. Holton, *Director* James E. Lawson, *Director*

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	For the 9 Months Ended December 31 1994 ($)	For the Year Ended March 31 1994 ($)
REVENUE		
Oil and Gas Revenue, Net	**791,630**	684,483
Other	**2,042**	1,430
	793,672	685,913
EXPENSES		
Oil and Gas Operating	**308,334**	267,409
Interest on Long-Term Debt	**152,710**	22,740
Professional Fees	**50,864**	56,201
Provision for Future Site Restoration	**7,000**	8,000
General Office	**176,857**	123,256
Shareholder Information	**12,036**	10,389
Depreciation and Depletion	**507,500**	1,248,650
Property Impairment	**–**	636,432
	1,215,301	2,373,077
NET LOSS FOR THE PERIOD, BEFORE UNDERNOTED ITEM	**421,629**	1,687,164
LOSS ON DISPOSITION OF OIL & GAS PROPERTY	**3,590,401**	–
NET LOSS FOR THE PERIOD	**4,012,030**	1,687,164
DEFICIT, BEGINNING OF PERIOD	**2,454,278**	767,114
DEFICIT, END OF PERIOD	**6,466,308**	2,454,278
NET LOSS PER SHARE	**0.11**	0.14

See Accompanying Notes

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	For the 9 Months Ended December 31 1994 ($)	For the Year Ended March 31 1994 ($)
OPERATING ACTIVITIES		
Operations:		
Net Loss	**(4,012,030)**	(1,687,164)
Deduct:		
Items not Requiring Working Capital		
- Provision for Future Site Restoration	**7,000**	8,000
- Depreciation and Depletion	**507,500**	1,248,650
- Property Impairment	**–**	636,432
- Loss on Disposition of Oil and Gas Property	**3,590,401**	–
Funds from Operations	**92,871**	205,918
Decrease (Increase) in Non-cash Working Capital	**79,264**	(141,007)
Cash Provided by Operating Activities	**172,135**	64,911
FINANCING ACTIVITIES		
Issue of Capital Stock	**1,540,000**	6,845,474
Share Issue Costs	**(163,597)**	(514,948)
Long-Term Debt	**1,600,000**	2,000,000
Repayment of Long-Term Debt	**(1,865,000)**	(135,000)
	1,111,403	8,195,526
INVESTING ACTIVITIES		
Oil and Gas Property Acquisitions	**(4,089,798)**	(6,469,074)
Proceeds on Sales of Oil and Gas Property	**3,300,000**	–
Mineral Properties	**–**	21,000
Furniture and Equipment	**(13,085)**	(19,240)
Acquisition of Subsidiaries, Net of Cash	**(15,269)**	(2,456,450)
(Increase) Decrease in non-cash working capital	**(550,688)**	660,070
	(1,368,840)	(8,263,694)
(DECREASE) IN CASH DURING THE PERIOD	**(85,302)**	(3,257)
CASH: BEGINNING OF PERIOD	**88,082**	91,339
CASH: END OF PERIOD	**2,780**	88,082

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation:

These consolidated financial statements include the accounts of the Company's wholly- owned subsidiaries, New Quebec Platinum Inc., TUSK Oil Corporation and 416600 Alberta Inc.

(b) Undeveloped Mineral Properties:

Costs relating to the acquisition, exploration and development of non-producing mining properties, including exploratory related administration costs, are capitalized until such time as either economically recoverable reserves are established or the properties are sold, abandoned or condemned. Costs relating to projects which have been abandoned are written off at that time. Costs relating to economically feasible projects will be amortized on a unit of production basis utilizing established proven reserves. Grants received for expenditure of costs on mineral properties are credited to the cost of mineral properties.

The Company holds an interest in a mineral exploration prospect and has not yet determined whether the property contains ore reserves that are economically recoverable. The recoverability of expenditures on mineral properties and related deferred costs is dependent upon the availability of necessary financing to complete the development, and upon future production. (See Note 1).

(c) Oil and Gas Properties:

The Company follows the full cost method of accounting in accordance with the guidelines issued by the Canadian Institute of Chartered Accountants, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. All such costs are accumulated in two cost centres representing the Company's activities undertaken in Canada and the United States. Such costs include land acquisitions, drilling and geological and geophysical expenses related to exploration and development activities. Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a significant change in the rate of depletion.

Costs capitalized in the cost centres are depleted using the unit-of-production method, based on estimated proven oil and gas reserves, before royalties, as determined by independent consulting engineers. For purposes of the depletion calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative heating value. The carrying value of undeveloped properties is excluded in the depletion calculation.

In applying the full cost method, the Company performs a ceiling test which limits the capitalized costs less accumulated depletion and depreciation to an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on year-end prices and costs, and after deducting estimated future general and administrative expenses, future abandonment and site restoration costs, financing costs and income taxes. Where the cost ceiling is less than the capitalized cost and the deficiency is related to significant acquisitions within the last 24 months, and is not permanent, a write-down of oil and gas properties is not required.

The Company periodically reviews the costs associated with undeveloped properties to determine whether the costs will be recoverable. An impairment allowance is made if the results of the review indicate an impairment has occurred.

Estimated future abandonment and site restoration costs are charged to the accumulated provision account as incurred.

(d) Joint Ventures:

Substantially all of the Company's mining and oil and gas activities are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

(e) Flow-Through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and capital stock are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

(f) Loss Per Share:

Basic loss per share has been calculated using the weighted average number of Common Shares outstanding during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. CAPITAL ASSETS

	Cost	December 31, 1994 Accumulated Depletion, Depreciation & Property Impairment	Net Book Value
Oil and Gas Properties	$ 4,477,560	$ 725,932	$ 3,751,628
Mineral Properties	73,137	–	73,137
Furniture and Equipment	38,558	14,493	24,065
	$ 4,589,255	$ 740,425	$ 3,848,830

	Cost	March 31, 1994 Accumulated Depletion, Depreciation & Property Impairment	Net Book Value
Oil and Gas Properties	$ 9,582,425	$ 1,875,932	$ 7,706,493
Mineral Properties	73,137	-	73,137
Furniture and Equipment	25,473	6,993	18,480
	$ 9,681,035	$ 1,882,925	$ 7,798,110

The United States cost centre has costs related to the Pico Anticline project, which has not commenced commercial operations. This project is considered to be in the preproduction stage and all related costs have been capitalized. For the year ended March 31, 1994, the Company recognized an impairment in the amount of its total costs of $630,932 against oil and gas properties to reflect a reduction in the net recoverable amount.

3. ACQUISITIONS

(a) Effective June 1, 1994 the Company acquired all of the outstanding shares of 416600 Alberta Inc., a private oil and gas company for $16,124. The acquisition has been accounted for using the purchase method. The total purchase price has been allocated to net assets based on fair values.

(b) Effective October 1, 1993 the Company acquired all of the outstanding shares of Nautiloid Resources Ltd., a private oil and gas company in exchange for 1,500,000 Common Shares of the Company at a price of $0.15 per share. The acquisition has been accounted for using the purchase method. The total purchase price of $225,000 has been allocated, based on fair values, to oil and gas properties.

(b) Effective January 1, 1994, the Company acquired all of the outstanding shares of 574343 Alberta Ltd., a private oil and gas company, for a purchase price of $2,231,450, payable as to $1,707,500 in cash and the balance by the issuance of 1,497,000 Common Shares at a price of $0.35 per share. The acquisition has been accounted for using the purchase method. The total purchase price has been allocated based on fair values, to oil and gas properties.

Nautiloid Resources Ltd. and 574343 Alberta Ltd. were amalgamated with TUSK Resources Inc. effective March 31, 1994.

4. NOTE PAYABLE TO RELATED PARTY

The note payable is non-interest bearing and is payable on demand to a company in which the Company holds an investment. The investment is recorded at cost and is included in mineral properties on the balance sheet.

5. LONG-TERM DEBT

The long-term debt bears interest at the bank's prime lending rate plus 1.5% and is secured by (i) a $4,000,000 principal interest amount Fixed and Floating charge debenture with a Fixed charge over certain oil properties and a Floating charge over all of the assets of the Corporation; (ii) a general security agreement;

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

and (iii) an assignment of the principal operating agreements, production receivables and contracts associated with certain oil properties.

The loan is a demand revolving reducing loan in the amount of $2,300,000, may increase from time to time and the company may borrow, repay and reborrow the amounts available under the loan. The maximum principal amount available under the loan will be automatically reduced by $57,500 each month beginning February 1, 1995.

6. CAPITAL STOCK

(a) Authorized:

The Company authorized capital of:

- an unlimited number of common shares without nominal or par value.
- an unlimited number of first and second preferred shares issuable in series with rights, privileges and conditions to be determined by the Board of Directors.

(b) Issued:

Common shares and Special Warrants were issued as follows:

	December 31, 1994		March 31, 1994	
	Number	Amount	Number	Amount
Balance Beginning of Period	31,126,607	$ 7,849,182	7,005,106	$ 1,413,656
Exercise of Stock Options	–	–	875,500	94,374
Exercise of Warrants	–	–	3,500,000	245,000
Acquisition of Subsidiaries	–	–	–	–
Issuance of Flow–Through Common Shares	7,700,000	1,540,000	2,997,000	748,950
Less: Tax Effect of Flow–Through	–	(683,000)	–	–
Issuance and Exercise of Special Warrants and Flow-Through Special Warrants	–	–	16,749,001	5,862,150
	–	8,706,182	31,126,607	8,364,130
Less: Share Issue Expenses	–	163,597	–	514,948
Balance End of Period	38,826,607	$ 8,542,585	31,126,607	$ 7,849,182

(c) Stock Options:

The Company has outstanding options to its officers and directors to purchase in the aggregate 2,200,000 Common Shares at a price of $0.20 per share, expiring on June 15, 1999. During the period 3,100,000 options were granted and 90,000 options were cancelled.

(d) Escrowed Shares:

Pursuant to an agreement with a trust company dated October 29, 1993, of the 1,500,000 Common Shares issued for the purchase of a private oil and gas company 540,000 Common Shares were placed in escrow. The agreement provides for the automatic release of one– third of such shares on the sixth, twelveth and eighteenth month anniversaries of the transaction. At December 31, 1994 180,000 shares remain in escrow.

(e) Broker Warrants:

The Company issued 1,200,000 Broker Warrants as partial consideration for agents fees on issuance of 15,577,144 Special Warrants. Each Broker Warrant allows the holder thereof to acquire at any time until December 1, 1995, upon exercise and payment to the Company of $0.50, one Common Share. In addition, the Company issued 226,400 Broker Warrants as partial consideration for agents fees on issuance of 7,700,000 Flow–Through Common Shares. Each Broker Warrant allows the holder thereof to acquire at any time until June 1, 1995, upon exercise and payment to the Company of $0.25, one Common Share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory rate of 44.3% to income before income taxes. The reasons for the differences are as follows:

	Period ended December 31, 1994	Year ended March 31, 1994
Expected Income Tax Recovery	$ (1,777,300)	$ (747,400)
Non–deductible Crown Charges	54,900	4,800
Alberta Royalty Tax Credit	(42,400)	(3,500)
Resource Allowance	(37,500)	(41,000)
Depletion with no Tax Basis	55,900	152,700
Other	1,200	400
Loss on Disposition of Assets Without Tax Basis	372,500	–
Unrecognized Benefits of Losses	1,372,700	634,000
Actual Income Tax Expense	$ –	$ –

At December 31, 1994 the Company and its subsidiaries have approximately $7,300,000 of unused tax pools and approximately $397,000 of non-capital losses carry forward available to offset future taxable income. The losses carried forward expire from 1995 to 2001. The benefits associated with the income tax losses carried forward have not been reflected in these financial statements.

At December 31, 1994 approximately $225,000 of the Company's assets are without income tax basis.

8. RELATED PARTY TRANSACTIONS

Included in accounts receivable at December 31, 1994 is $6,854 due from officers and directors (March 31, 1994 - $2,635). Included in accounts payable at December 31, 1994 is $16,000 due to officers and directors (March 31, 1994 - Nil).

9. COMMITTMENTS

(a) At December 31, 1994 the Company has a committment to renounce a further $465,885 of tax attributes associated with exploratory and development activities.

(b) The Company entered into an agreement to lease office space for six years beginning February 1, 1994 for approximately $52,000 per year.

10. SUBSEQUENT EVENTS

(a) Effective February 1, 1995 the Company sold its 25% working interest in one of its producing wells at Utikuma Lake, Alberta for $400,000. The proceeds were applied to reduce accounts payable.

(b) At the Annual Shareholders Meeting to be held June 7, 1995, the shareholders of the Company will be asked to adopt a special resolution to reduce the stated capital of the Common Shares by $6,466,308 and, as a result, the deficit of the Company by the same amount. In addition, the shareholders of the Company will be asked to adopt a special resolution to consolidate the Common Shares on a six for one basis.

CORPORATE INFORMATION

BOARD OF DIRECTORS

William E. Code, Q.C.
Calgary, Alberta

Richard W. Grayston(1)
Calgary, Alberta

Norman W. Holton
Calgary, Alberta

James E. Lawson, C.A..
Calgary, Alberta

John D. Morgan(2)
Montreal, Quebec

(1) retires June 7, 1995
(2) nominee

OFFICERS

Norman W. Holton, P.Geol.
President/Chief Executive Officer

Gordon K. Case, C.A.
Vice President/Chief Financial Officer

Brian W. Mainwaring
Secretary

EMPLOYEES AND CONSULTANTS

Edward F. Thurmeier, P.Eng.
Engineering Consultant

Ramez Karma
Geological Consultant

Jackie Sarrazin
Secretary

TRANSFER AGENT & REGISTRAR

The R-M Trust Company
600, 333 - 4th Street S.W.
Calgary, Alberta
T2P 2Z3

BANKERS

Canadian Western Bank
441 - 5th Avenue S.W.
Calgary, Alberta
T2P 2V1

AUDITORS

KPMG Peat Marwick Thorne
1200, 205 - 5th Avenue S.W.
Calgary, Alberta
T2P 4B9

LEGAL COUNSEL

Code Hunter Wittmann
1400, 700 - 2nd Street S.W.
Calgary, Alberta
T2P 4V5

THIRD PARTY ENGINEERING

Sproule Associates Limited
900, 140 - 4th Avenue S.W.
Calgary, Alberta
T2P 3N3

SUBSIDIARIES

TUSK Oil Corporation
416600 Alberta Inc.
New Quebec Platinum Inc.

TUSK
RESOURCES INC.

1950, 700 - 4th Avenue S.W.
Calgary, Alberta, T2P 3J4
Bus: (403) 264–8875 Fax: (403) 263–4247

TUSK
RESOURCES INC.

BOZEK LAI DESIGN INC. PRINTED IN CANADA